Regional Integration, ASEAN Economic Community, and Maga-trade Blocs

Mr. Bhanupong

Lecture 20

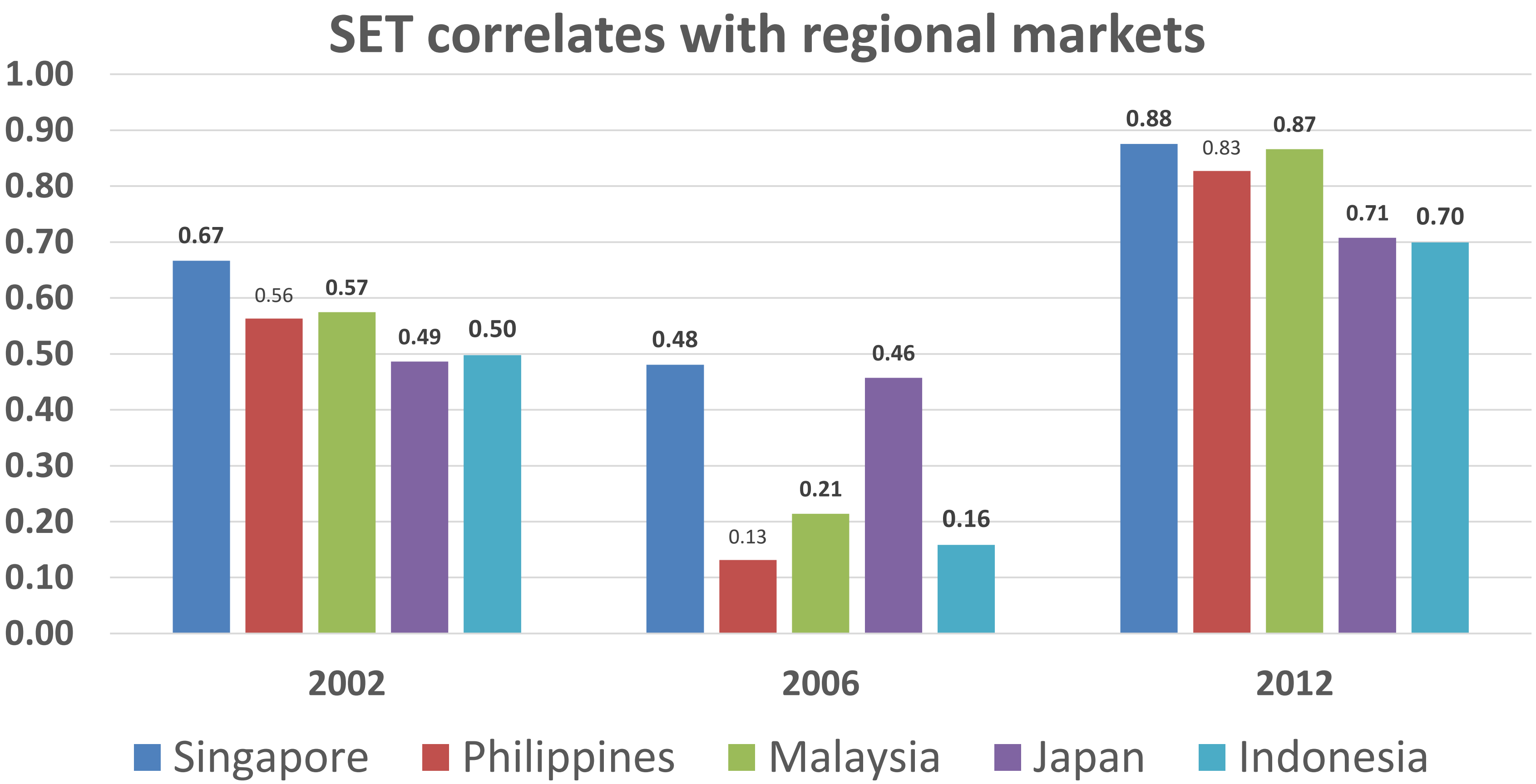
Course Syllabus
Lecture 20

- ASEAN integration is evaluated from the level of **intraregional activities: trade, investment, and capital flows.**
- We discus new economic geography and explain how the **gravity model** can be applied to Thailand's rising *degree of trade exposure*.
- The lecture reviews AEC's progress and challenges by examining the ASEAN Blueprint 2025.
- **Mega Trade Blocs** such as ASEAN plus 6, RCEP, and CPTPP are discussed.

Key Words

1. Regional integration indicators
2. ASEAN, GMS, and AEC
3. Factor endowment theory vs.
   New economic geography
4. Multiple Free Trade Agreements
5. Mega Trade Blocs
6. EU and Thailand's trade agreement

1. Regional integration indicators



In normal times, SET index moves in tandem with other Asian stock prices (high correlation) which are also affected by the same global shocks

Still high correlations in 2020?

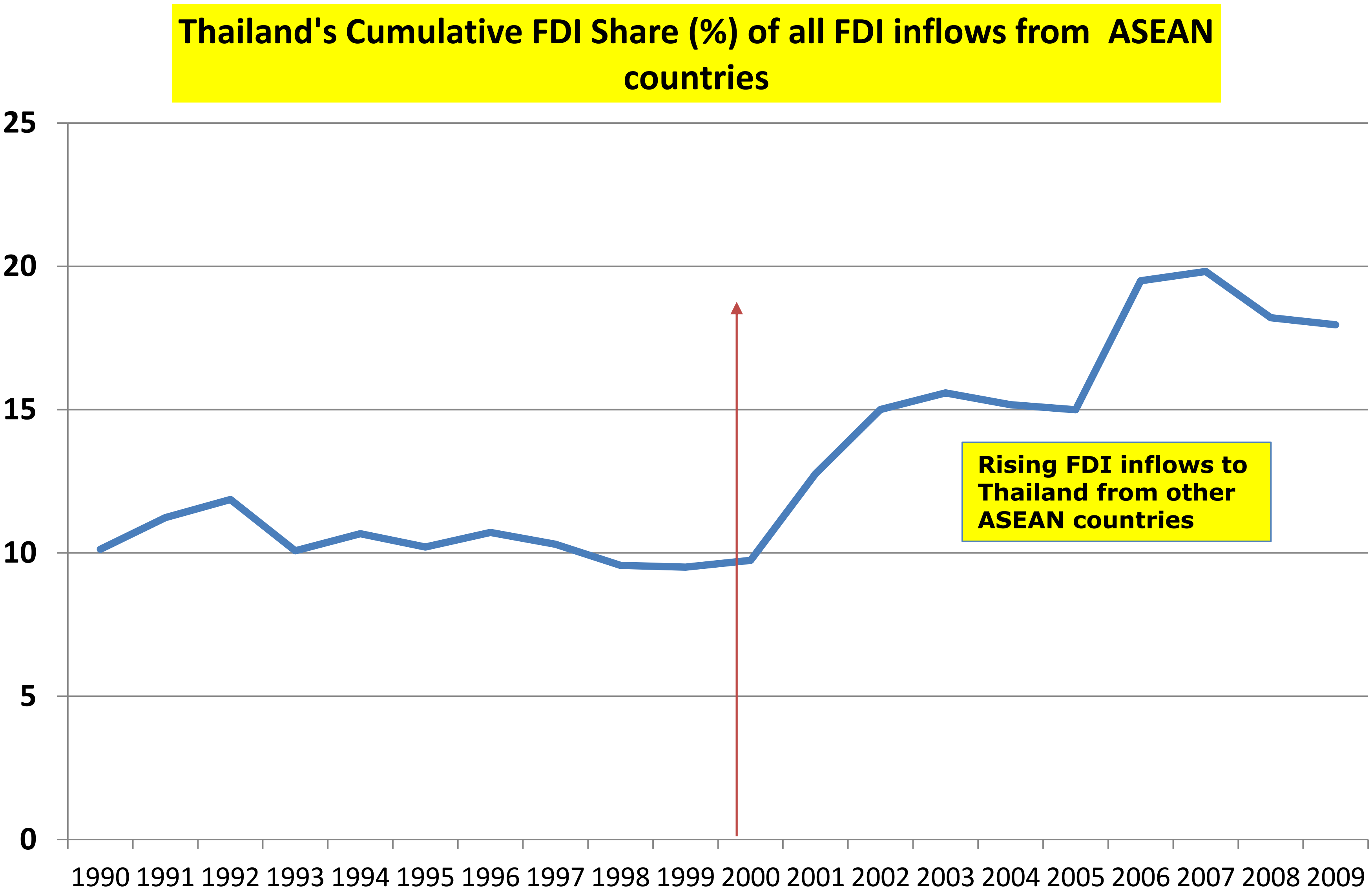
- Regional and global integration of Asian stock markets
- International investors interested in expanding the geographical scope of portfolio diversification strategies.

World stock correlation tables

0.36	0.68	0.7	-0.82
-0.43	-0.53	-0.54	0.19
0.19	0.7	0.47	-0.73
-0.14	0.36	0.41	-0.74
0.31	0.7	0.25	-0.41
0.41	0.6	0.82	-0.85
0.19	0.37	0.63	-0.66
	0.43	0.57	-0.07
0.43		0.44	-0.47
0.57	0.44		-0.55
-0.07	-0.47	-0.55	

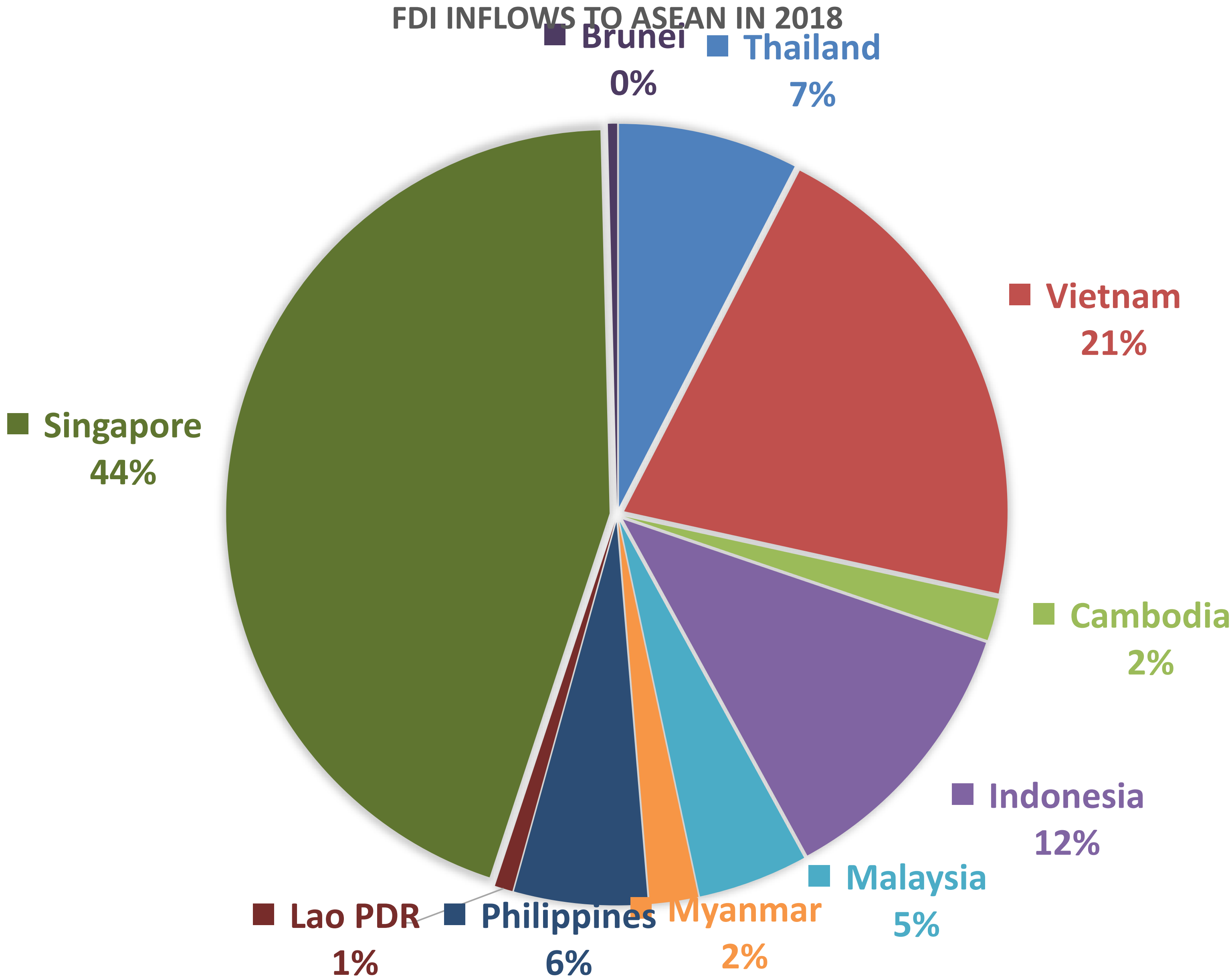
Regional integration through FDI

- Cumulative foreign direct investment (FDI) share ***is*** the percentage of regional FDI ***inflows*** to ***total*** FDI into Thailand.
- A higher share indicates a stronger preference for Thailand from ASEAN nations.

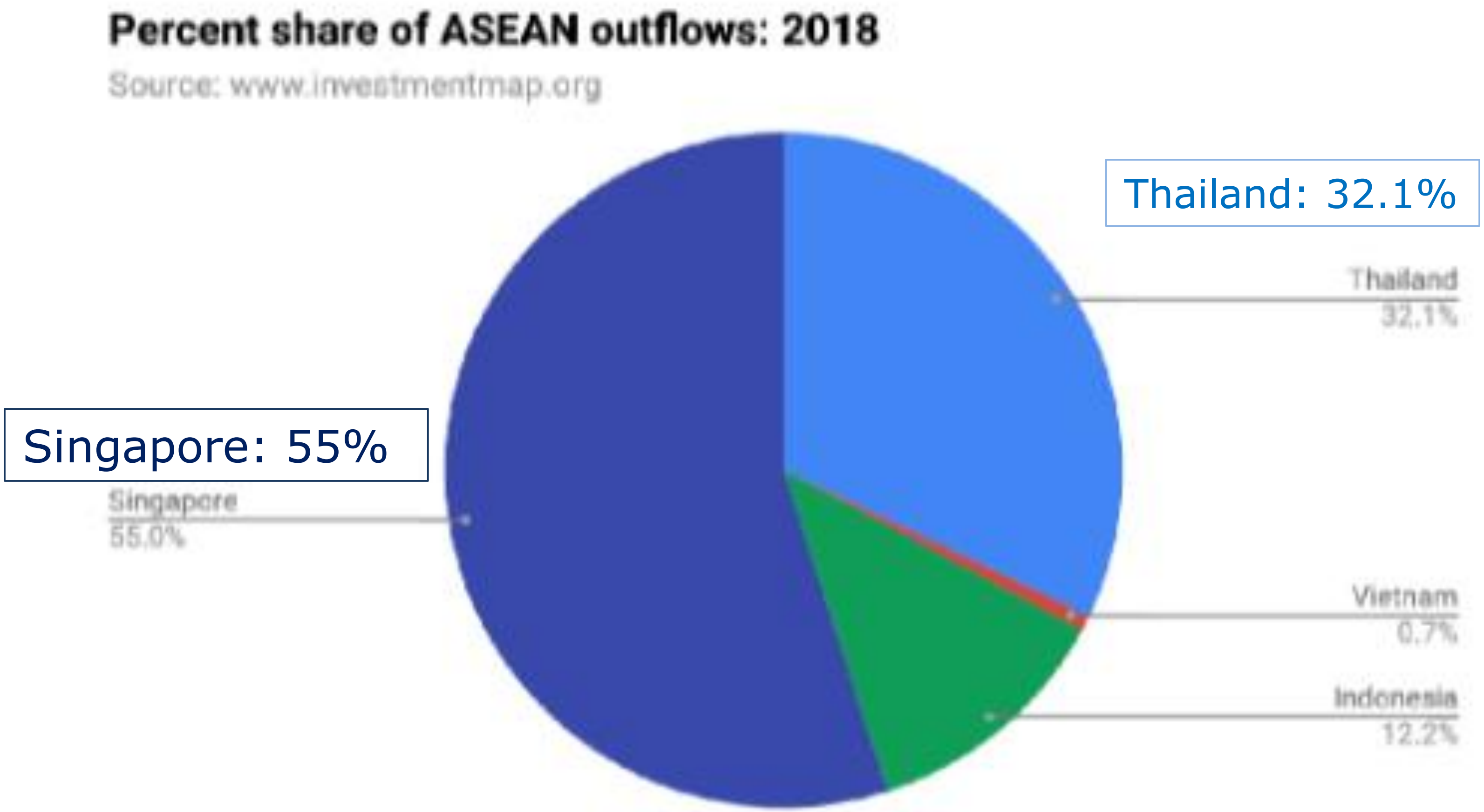


In the first half of this year, Vietnam attracted $11 billion in foreign direct investment, surpassing that of Thailand. The trend would continue in the future.

Thanks to Patiphan



Credit to Patiphan



Trade intensity index

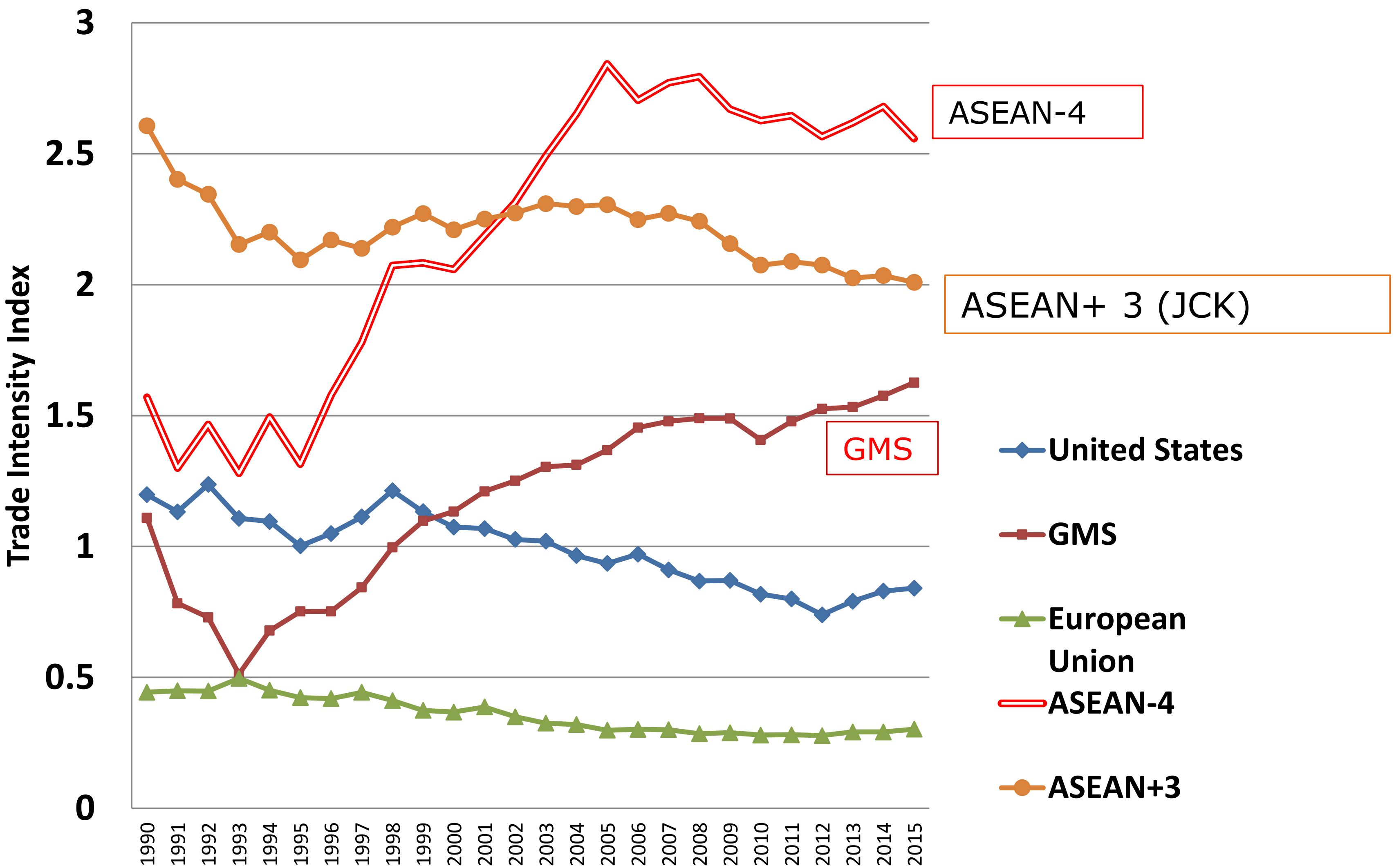
- The trade (exports and imports) intensity statistic is the ratio of two trade shares.
- The numerator is the country's trade share to the area under study.
- The denominator is the ***share of trade of the country in the world.***
- The statistic tells us whether or not a region trade more (as a percentage) to a given destination than the world does on average.
- The export intensity index is interpreted in much the same way as the trade intensity index

Thailand Trade Intensity with ASEAN

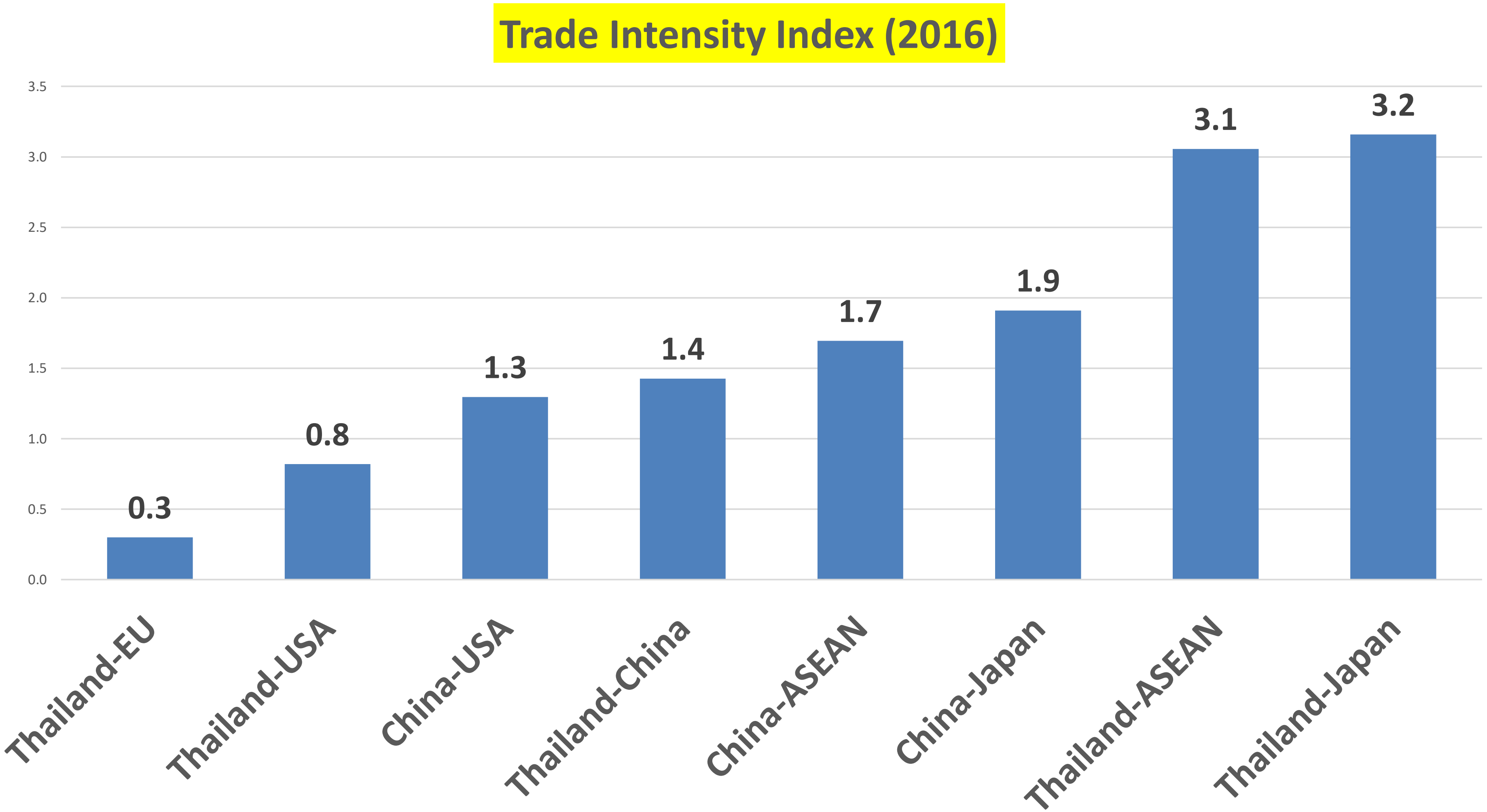
$Thailand's Trade\ Intensity$ Index with ASEAN

$$= \frac{Thailand's \text{ share of trade with ASEAN}}{Thailand's \text{ share of trade in the world}}$$

Thailand's Trade Intensity



The higher the index value, the stronger the trade intensity with the corresponding area
ASEAN-4 (without Singapore)
ASEAN+ 3 (CJK)



Source: ADB Integration Center

Thailand's trade intensity with the EU and the U.S. is below Thailand's average trade with the rest of the world

Trade intensity is enhanced by network trade via investment in GVC

- Thailand has increasingly become an ***integral part*** of the ***world*** economy.
- The degree of ***Asian regional integration*** of Thailand has been ***more*** pronounced through foreign investment via ***product fragmentation and network trade (Global Value Chain).***

2. ASEAN achievements

- Common Effective Preferential Tariff (CEPT) rates are zero among ASEAN-6.
- More than 70% of intra-ASEAN trade are now *tariff free*, and less than 5% subject to tariff above 10%.
- ASEAN-6 are near achieving international best practices in investment liberalization and facilitation.
- Agreement on Mutual Recognition Agreements (MRAs) on service liberalization on **three** types of services and ***seven*** professions.

AEC Background

- ASEAN Free Trade Area (AFTA) has been the main vehicle prior to AEC
- Thailand is the key proponent that brokered AFTA
- Ambitious liberalization program was achieved by original ASEAN members, reducing external tariffs among members.
- AFTA has accelerated the pace of multilateral trade liberalization in the ASEAN-6, which is a long-standing commitment of ASEAN-6 to trade openness.

ASEAN Economic Community (AEC) Established in 2015

- The tariff rates among ASEAN countries were cut to 5 percent in 2005, covering about **95** percent of intra-ASEAN trade.
- Fully liberalized trade among ASEAN took place in 2010; for the ***new*** members (CLMV) in **2015**.
- The deadline had been set at **2015** for the establishment of ***ASEAN Economic Community*** (AEC).

AEC Challenges

- ASEAN obviously ***did not*** achieve all of its AEC targets by December 31, 2015.
- The followings are future challenges:
- Removing *barriers to trade in* ***sensitive*** **areas**: agriculture, steel, and important services.
- Removing *behind-the-border constraints* related to logistics, transport, and infrastructure.
- Promoting *greater labor mobility* to include ***unskilled***--not just skilled labor.

Greater Mekong Subregion (GMS)

- GMS nations, comprising ***Cambodia, Laos, Myanmar, Thailand, Vietnam,*** and **Yunnan** province in China, have agreed to promote trade and investment in the region.
- Asian Development Bank provided loans worth 770 million USD to finance **transportation projects** by establishing ***networks of roads*** between GMS countries and building bridges across Mekong River.

An old African proverb

"If you want to go ***fast*** you should go alone.

If you want to go ***far***, we have to go together"

Connectivity

- Investments for **inclusive** regional connectivity is essential for all ASEAN countries, although progress is not as rapid as business had hoped to see.
- **Connectivity** between China and India to ASEAN is vital.
- There is a need to strengthen the link between Southern China and ASEAN via Laos.

China’s investment in connectivity

The World's ***Longest Sea Bridge***, Connecting Hong Kong to Mainland China

The 34-mile bridge connects the semi-autonomous regions of Hong Kong and Macau to the Chinese mainland.

China: Establishing connectivity and controllability

- It cuts travel time between the three cities from ***several hours to about 30 minutes*** (economies of speed, such as the 5G technology).
- Costing about $20 billion to construct, the bridge was built to withstand a magnitude-8 earthquake, a super typhoon and super-sized cargo vessel collisions,
- Conservationists have warned that the structure poses a threat to local marine life, such as the Chinese white dolphin.
- The bridge has been condemned by critics of the Chinese government as ***a political tool*** being wielded by Beijing to impose greater control over Hong Kong.

High Speed Rail (HSR)

- China has made a lot of investments in Laos. Among them is the China --Laos Railway, running from ***Kunming to Vientiane***.
- The 1,022-km route will open in 2022 with trains running at up to 200km/hour and taking about 10 hours to travel from Kunming to Vientiane.

From Kunming to Vientiane: 10 hours

Connecting Thailand’s three airports

- The 224-billion-baht rail system linking the capital's Don Mueang and Suvarnabhumi with U-Tapao airport in Rayong.
- The *220km high-speed railway* is one of five ambitious infrastructure megaprojects that will serve the EEC.
- The fastest train in the world: Shanghai Maglev

Shanghai Maglev, 267.8 mph, China

Shanghai Maglev has no wheel

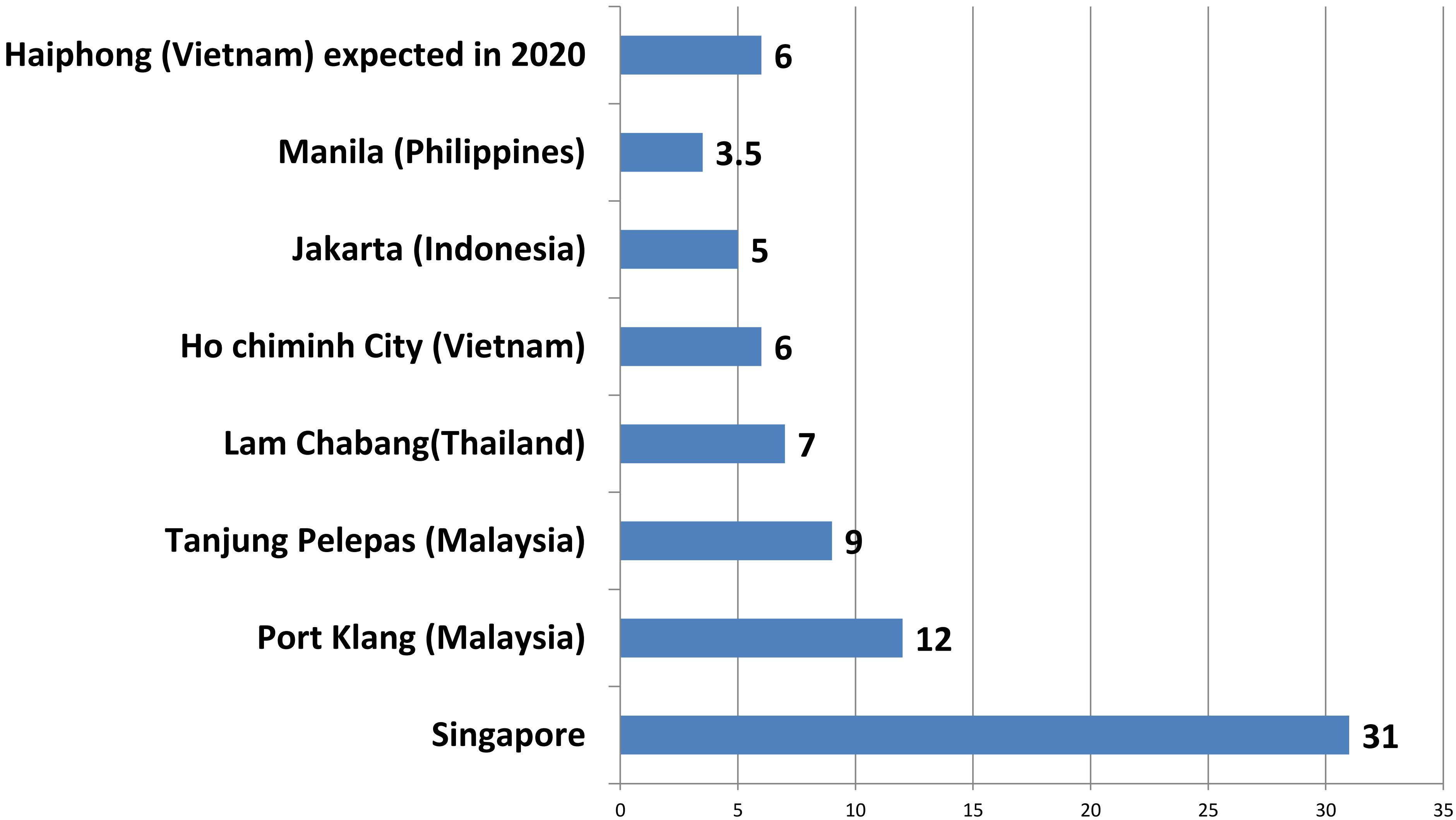
- Maglev is an abbreviation of magnetic levitation – suspension or floating of an object by the magnetic field.
- Unlike regular train tracks, **Shanghai Maglev has no wheel**, and it floats on magnetic field existing between the train and track.
- This electromagnetic pull offers by the powerful magnates let the train to fly over the track as there is no contact between train and track.
- Shanghai maglev could reach its top speed of 267.8 mph from 0 mph in just 4 minutes.
- The Shanghai's 18.95-mile long maglev line is the **only commercially operated maglev in the world**. Siemens and ThyssenKrupp companies built the Shanghai Maglev.
- The public service of the Shanghai maglev started on 1st January 2004.

Infrastructure development and ***investment creation effect***

- *Trade creation effect* **may not be as high** as previously expected from ASEAN Free Trade Agreement
- But ***investment creation effect*** is **substantial** within the ASEAN region.
- ***The GMS sub-regional trading bloc is a natural consequence of a reduction in non-tariff trade cost, reinforcing the trade pattern which reflects comparative advantage.***
- **Infrastructure-led growth Hypothesis: Building port facilities for handling containers**

Major Ports in Southeast Asia

by number of containers handled



Mitsui OSK Lines plans to take advantage of a route between Haiphong and North America
Korea’s LG Group will make the port for exports to the US and Europe.

The ***East-West* Economic Corridor** (R9), 1300 km, connects four countries from the port city of **Da Nang** on the ***South China Sea*** in Vietnam to **Mawlamyine**, a port city on the ***Andaman Sea*** in Myanmar, connecting roads passing through **Phitsanulok** and Khon Kan, and **Suvanakhet** in **Laos.**

North-South Economic Corridors *reduce* **non-tariff trade cost**

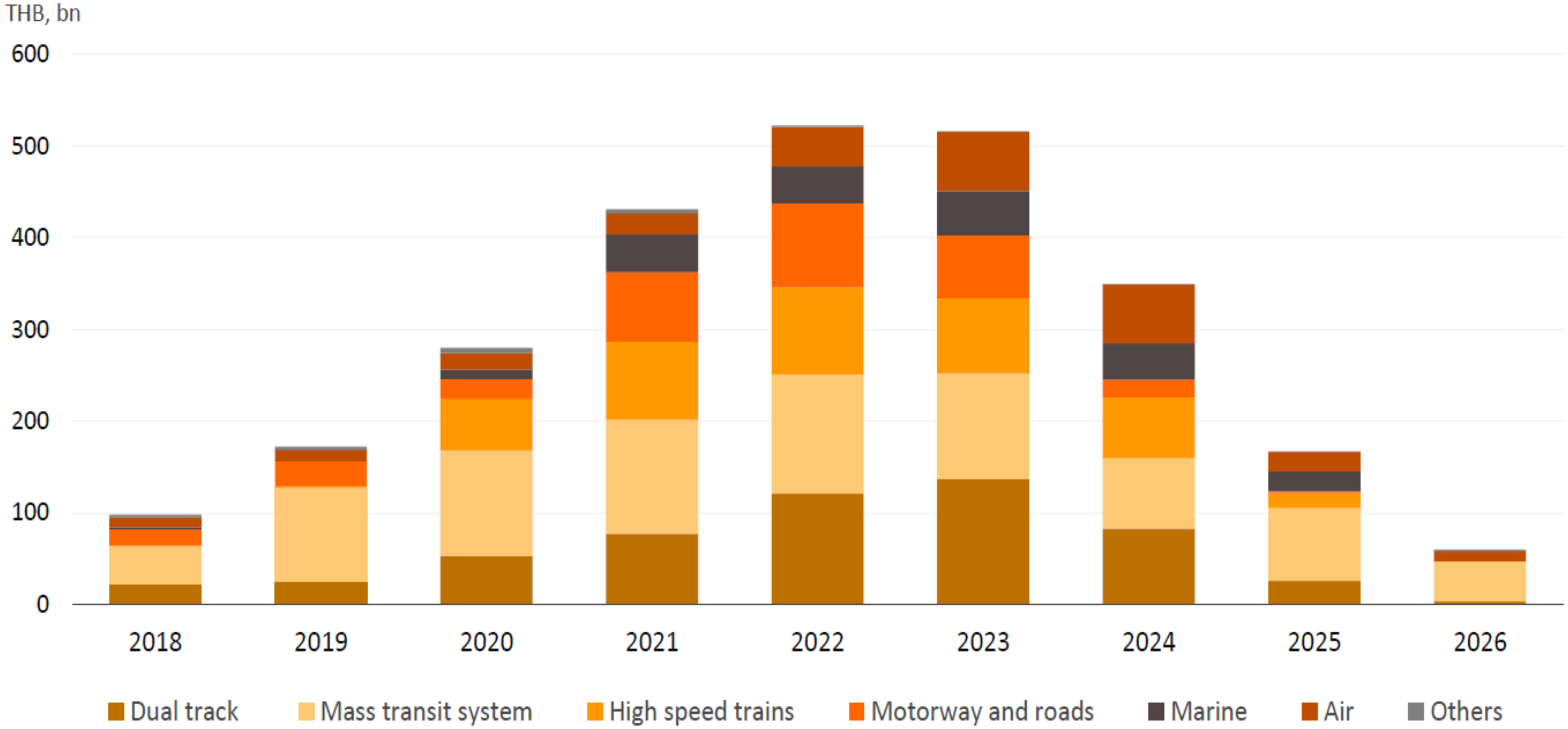
- Another route is on the North-South Economic Corridor, goods can also be transported from Kunming to Chiang Rai via Laos.
- Bangkok can also be linked to Phnom Penh and Ho Chi Min City by the ***Southern*** **Economic Corridor**.
- The infrastructure development in the GMS would develop **secondary cities** along the road networks and provide access of **hinterlands** to sea ports.
- The planned road networks would ***connect*** six countries in the Greater Mekong Region, **integrating these countries geographically** more than ever.

Southeast Asia regular and *high speed* rail network unlikely to be complete by 2022

The volume of trade will be limited and **prohibitive when** transportation cost is higher than price differentials between trading countries

Comprehensive infrastructure development, including rail-based transportation, extending the road network, and airport & seaport development, would transform dependence on road transportation to multimodal transportation. **This integrated network will stimulate a new investment cycle, improve infrastructure to prepare for new technology-driven industries, and to connect to neighbouring countries.**

Mega Project Investment Categorized by Mode of Transportation



Completed (Cost)

- HUNGARY — Huawei logistics center — $1.5bn
- IRAN — Rudbar Lorestan hydropower dam — $578m
- KAZAKHSTAN — Khorgos dry port — $245m
- PAKISTAN — Gwadar Port construction of breakwaters — $123m
- SRI LANKA — Hambantota deep sea port Phase I, II — $1.3bn
- CAMBODIA — National Road No. 214, Stung Treng-Mekong River Bridge — $117m
- INDONESIA — Sumsel-5 power plant — $318m
- NORTH KOREA — New Yalu Bridge — $350m

Under construction

- BANGLADESH — Payra power plant — $1.65bn
- LAOS — China-Laos railway — $5.8bn

Started

- ISRAEL — Haifa Bay port — $1.16bn

Announced/under negotiation

- MONGOLIA — Tavan Tolgoi rail project — $1bn
- TURKEY — Third nuclear power plant — $25bn

Unknown

- UKRAINE — Kiev metro's fourth line — $1.3bn

Impacts of BRI on Thailand

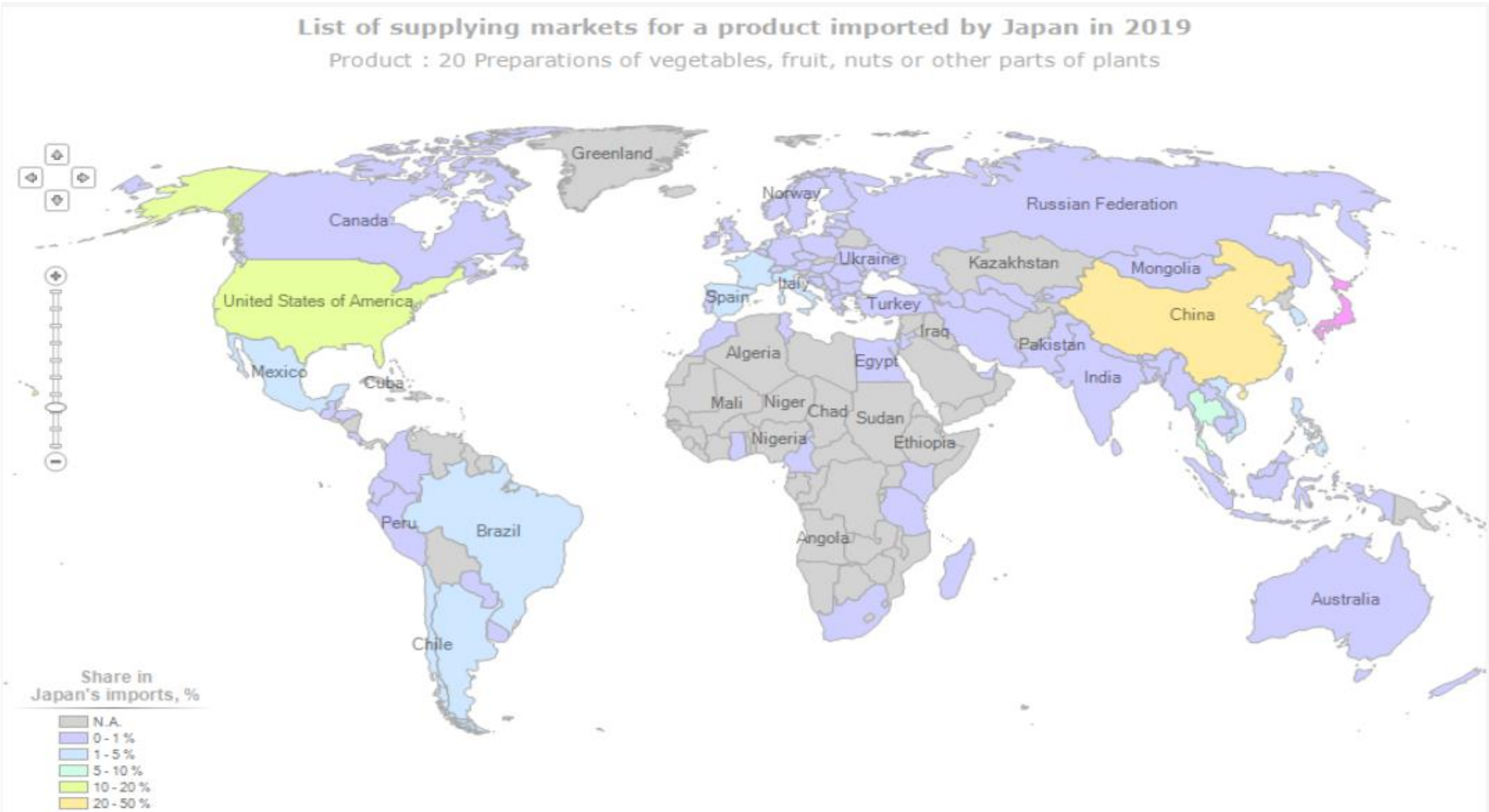
BRI connecting 65 countries

- The Belt and Road Initiative was developed to bolster economic and social ties with 65 countries in Asia, Africa and Europe, covering an estimated population of 4.4 billion people.
- Consequences of BRI

3. 1 Factor Endowment Theory

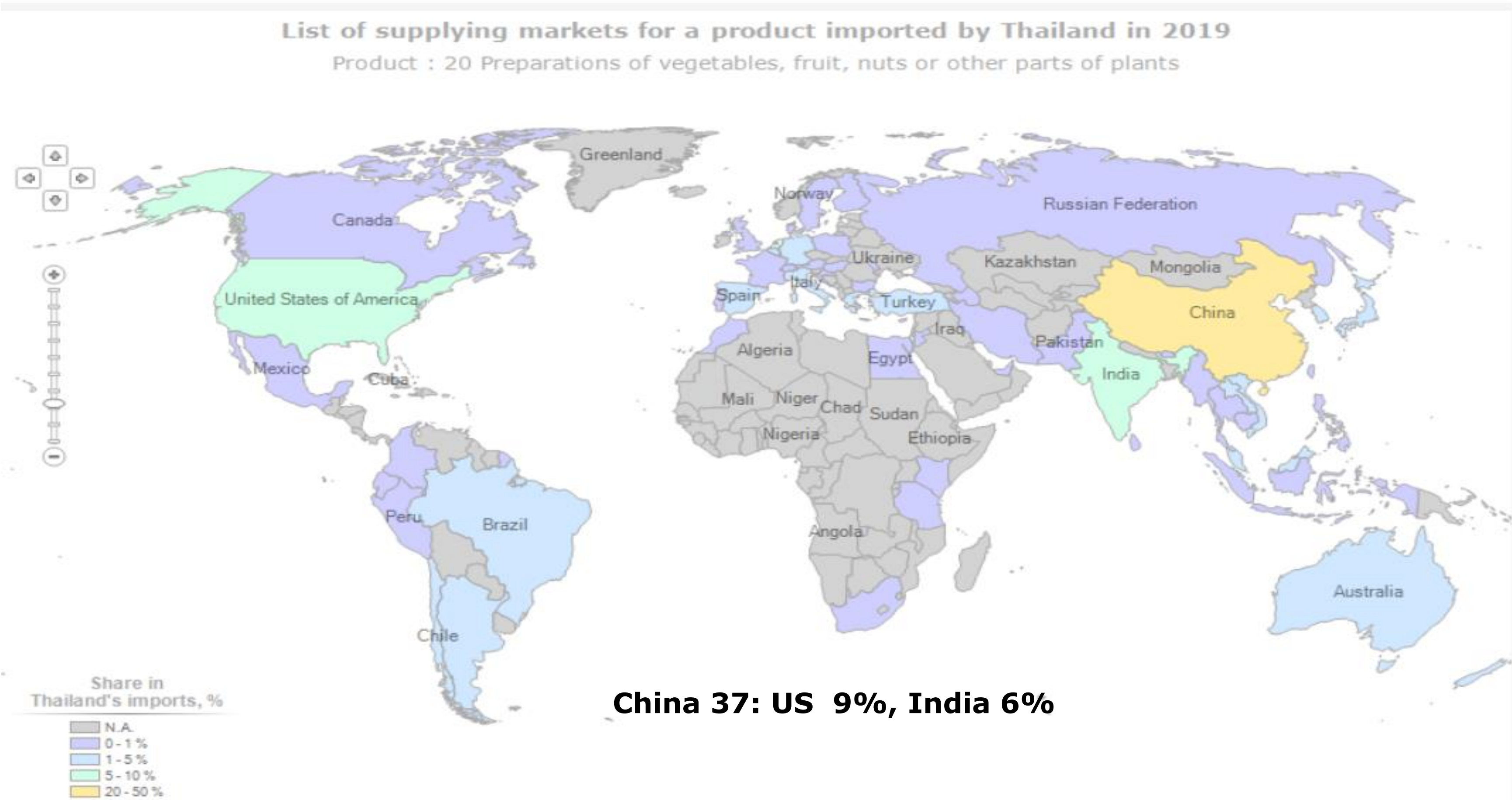
- Until the end of the 1970s, the Heckscher-Ohlin theory for which Bertil Ohlin won the prize (Eli Heckscher died before the Nobel Prize in economics was instituted) dominated the field of international trade theory.
- This theory explained well why **labor-abundant** countries such as **China** exported labor-intensive products such apparel, toys and footwear and ***capital-abundant*** countries such as ***the U.S.*** would export machinery and aircraft.

Japan's imports of vegetables, fruit nuts in 2019



China 43%, US 16%Thailand 6%, Spain 2%
France 1%

vegetables, fruit, and nuts (product 20) imported by Thailand in 2019



China 37: US 9%, India 6%

Factor endowment theory ***cannot*** explain intra-industry trade

- Factor endowment theory could not satisfactorily explain the two-way trade (of the same product with some differentiation) that was widely known to exist: *Intra-industry trade*
- The Heckscher-Ohlin theory also did not adequately explain why rich countries in Europe and the U.S., which had very **similar endowments of capital and labor**, traded ***more intensively*** than those with ***very dissimilar endowments.***

3.2 Krugman's new economic geography

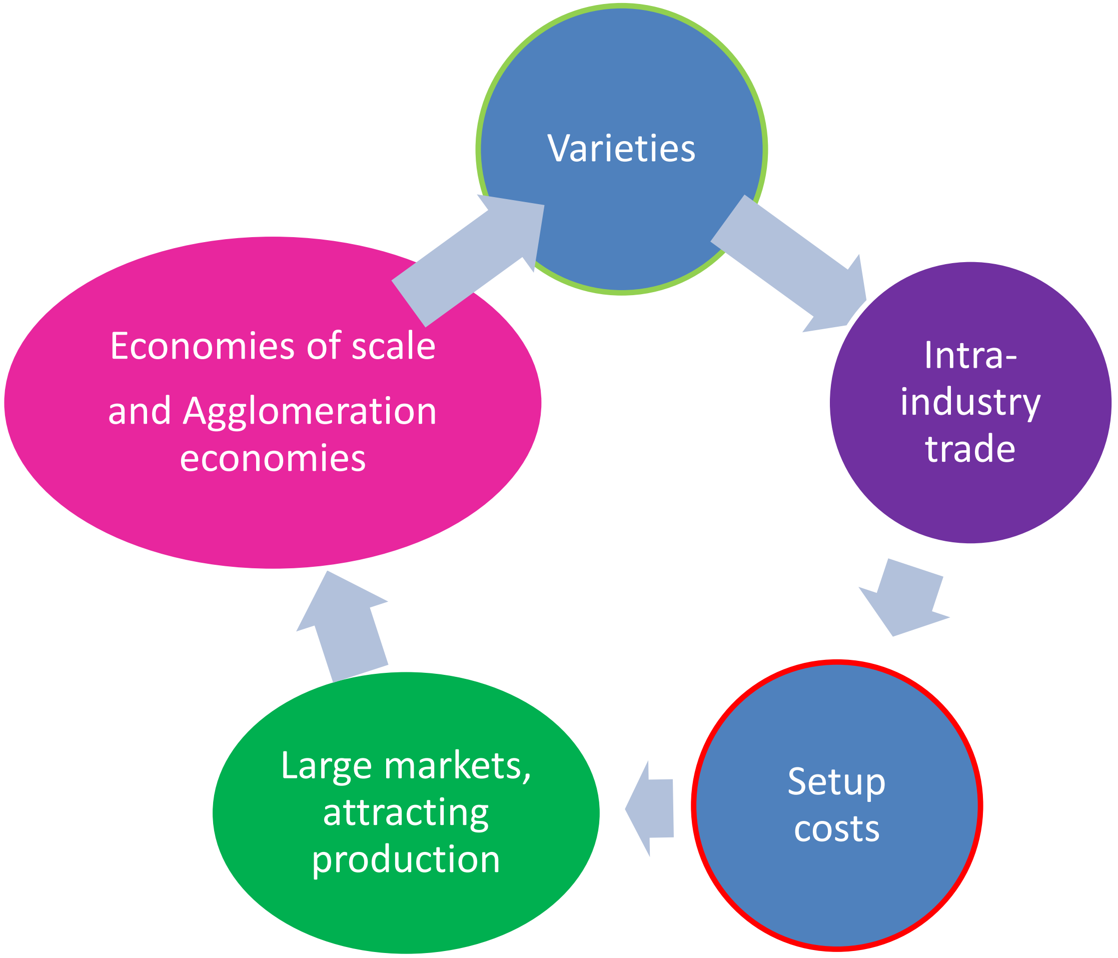
Theory of economies of scale and product variety

- Krugman (1979) postulated that consumers like ***variety*** in what they consume.
- Krugman won the Nobel Prize in 2008.
- For the same expenditure, their satisfaction is greater if they have a larger variety of products available.
- This creates the incentive for firms to produce **a large variety of products**.
- How many packed rice varieties can we find in a supermarket or 7Eleven?
- How many varieties of apples being sold in Bangkok supermarkets?

Market size matters

- But the production of a *new variety has* ***setup (fixed) costs, which its average cost declines as sale volume rises.***
- As a larger quantity of the variety is produced and places a limit on the number of varieties the market can profitably supply.
- *A firm produces a new variety only if it can capture a large enough market to allow profitable sales.*
- ***Economies of scale*** explains **intra-industry trade**, while H-O theorem cannot.

Economies of scale and intra-industry trade



New Economic Geography
Paul Krugman: Four propositions

(1) **Transportation costs**, or more broadly **transaction costs across distance**, play a crucial role in shaping international and interregional trade. (Distance matters)

(2)Economies of scale: The interaction of market size with increasing returns plays an important role in determining the **location of production**.

(3) Home market effect is a major explanation of trade through differences in **population density** and ***localized specialization***.

(4**) Agglomeration effect**: larger markets attract more and more production; leading to economies of agglomeration.

Newton and law of gravity

- Newton’s law of gravity: ***the gravitational attraction between any two objects is proportional to the product of their masses and diminishes with distance.***
- Large economies tend to spend large amounts of money on imports because they have large incomes.
- Large countries tend to attract larges shares of other countries' spending because they produce a wide rage of products.
- Trade between any two economies is larger, the larger in ***either*** economy.

The Gravity Model

- The value of trade between any two countries is proportional, other things equal, to the product of the two countries' GDP, and ***diminishes with the distance*** between the two countries.

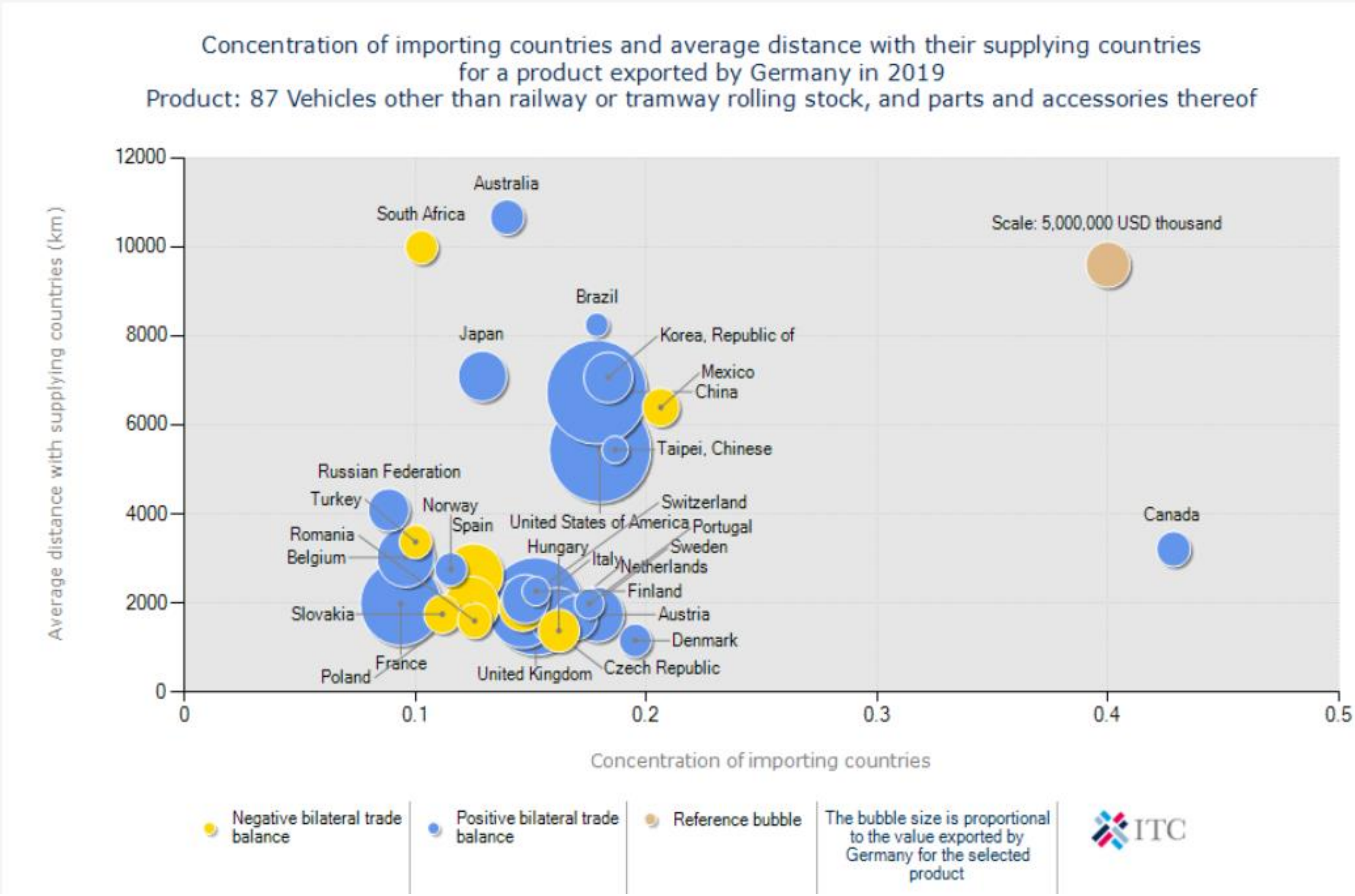
$$\boxed{T_{ij} = AY_i^{\alpha} Y_j^{\beta} / D_{ij}^{\delta}}$$

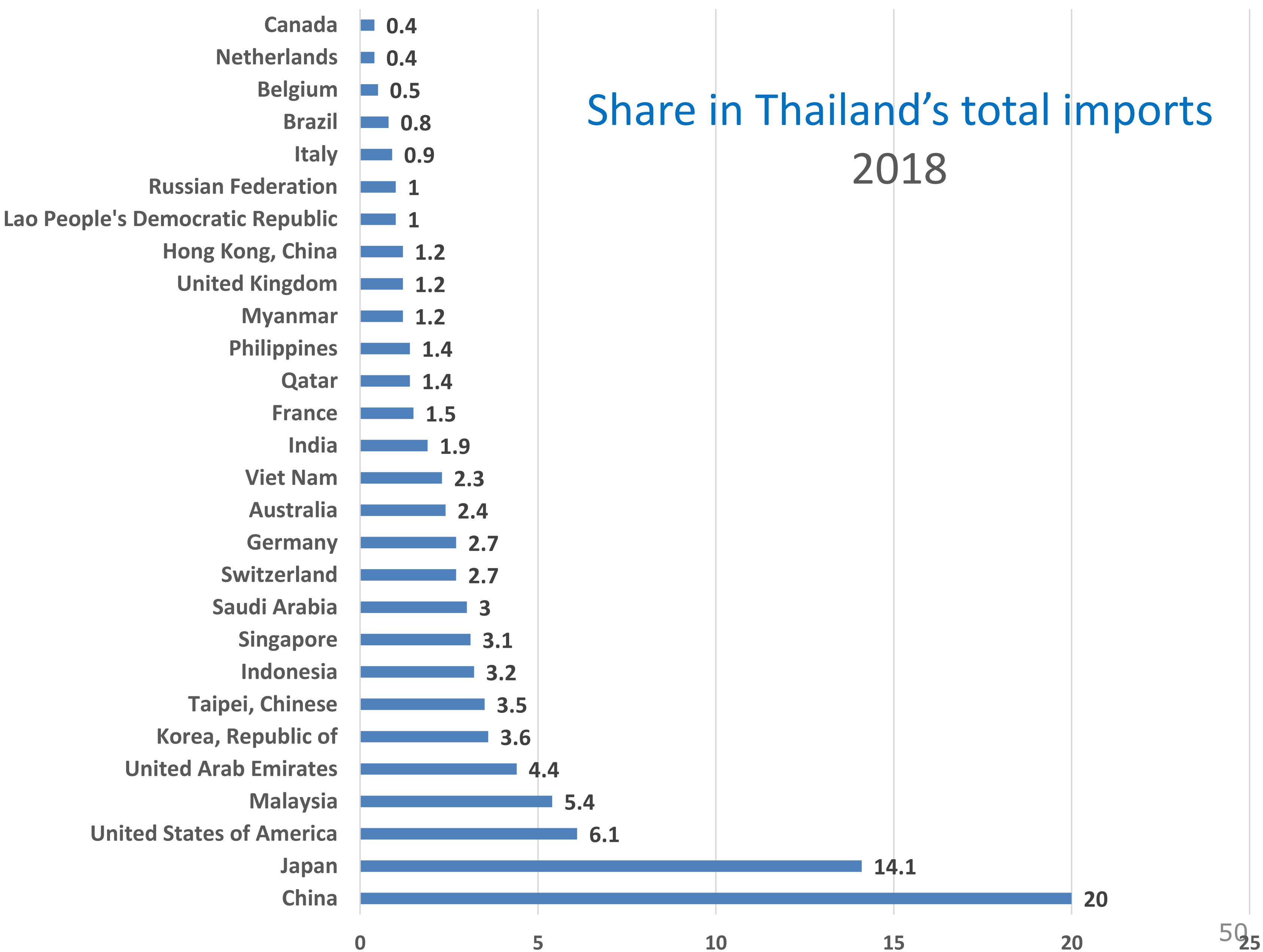
$$T_{ij} = AY_i^{\alpha} Y_j^{\beta} / D_{ij}^{\delta}$$

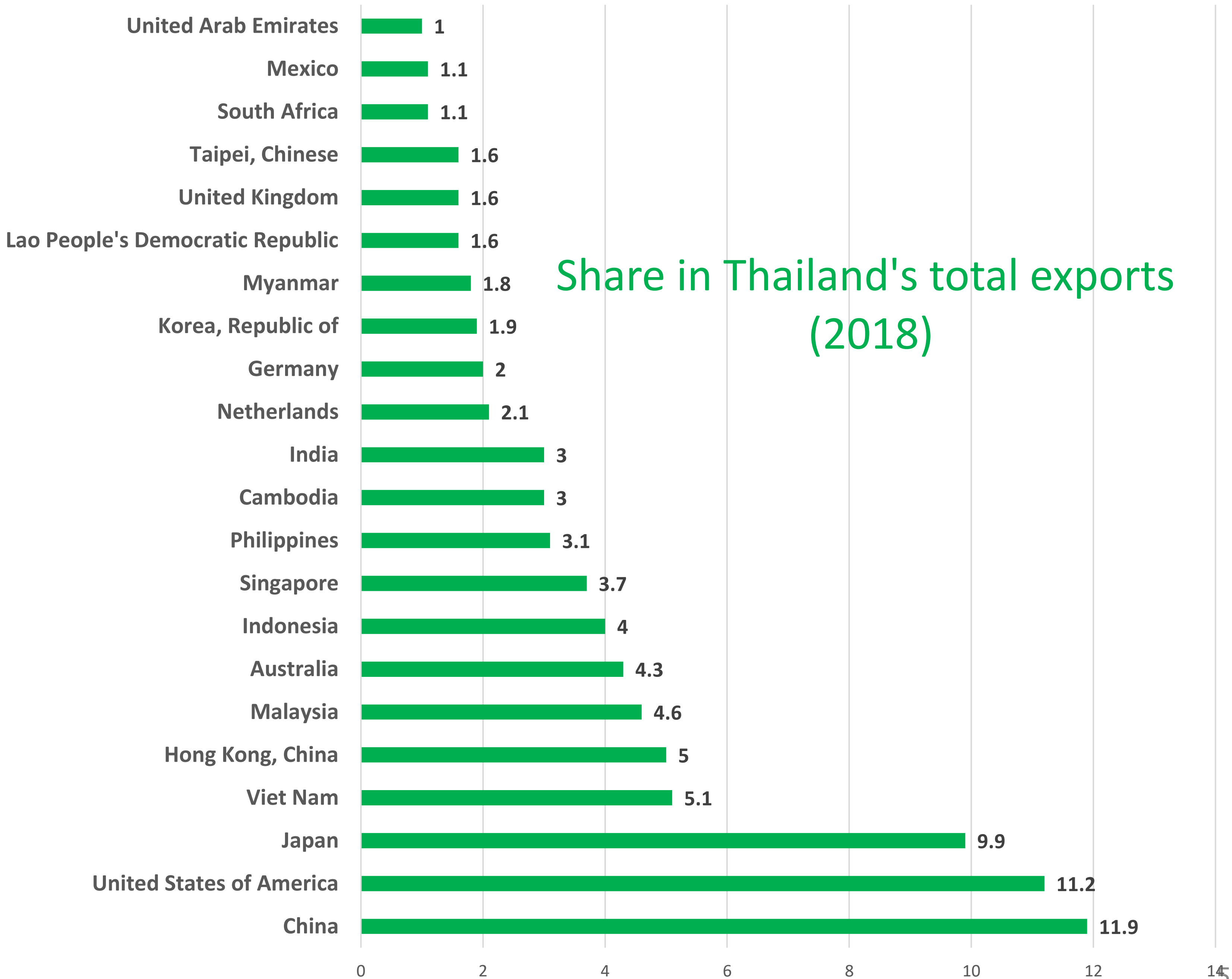
$$\log(T_{ij}) = \ln(A) + \alpha \log(Y_i) + \beta \log(Y_j) - \delta \log(D_{ij}) + \varepsilon$$

Trade volume depends on sizes of both economies and the distance between them.

Germany's vehicle exports in 2019
law of gravity




Share in Thailand's total imports
2018
Canada 0.4
Netherlands 0.4
Belgium 0.5
Brazil 0.8
Italy 0.9
Russian Federation 1
Lao People's Democratic Republic 1
Hong Kong, China 1.2
United Kingdom 1.2
Myanmar 1.2
Philippines 1.4
Qatar 1.4
France 1.5
India 1.9
Viet Nam 2.3
Australia 2.4
Germany 2.7
Switzerland 2.7
Saudi Arabia 3
Singapore 3.1
Indonesia 3.2
Taipei, Chinese 3.5
Korea, Republic of 3.6
United Arab Emirates 4.4
Malaysia 5.4
United States of America 6.1
Japan 14.1
China 20
0
5
10
15
20
25


Share in Thailand's total exports (2018)
United Arab Emirates
1
Mexico
1.1
South Africa
1.1
Taipei, Chinese
1.6
United Kingdom
1.6
Lao People's Democratic Republic
1.6
Myanmar
1.8
Korea, Republic of
1.9
Germany
2
Netherlands
2.1
India
3
Cambodia
3
Philippines
3.1
Singapore
3.7
Indonesia
4
Australia
4.3
Malaysia
4.6
Hong Kong, China
5
Viet Nam
5.1
Japan
9.9
United States of America
11.2
China
11.9
0
2
4
6
8
10
12
14

4. Multiple FTAs

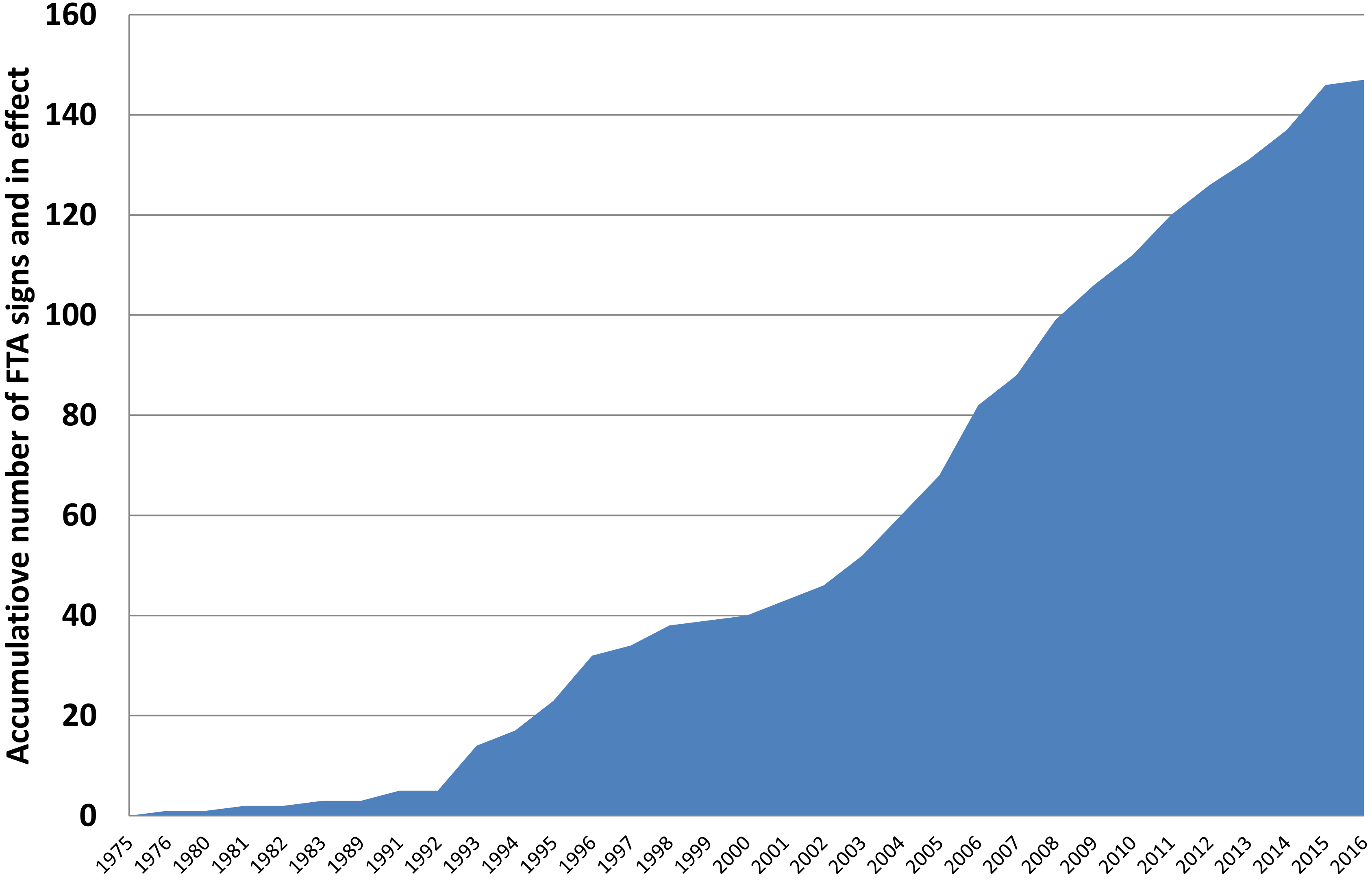
- Thailand rushed to negotiate FTAs with many countries, including USA, Japan, Australia, New Zealand, Bahrain, India, China, Chile, and Peru.
- Although Japan had already established FTAs with Singapore, Thailand was a ***more difficult*** case for Japan, since negotiations involved **agriculture** and labor issues.
- ***Singapore*** had already removed most of her tariff barriers, while the two countries’ levels of per capita income do not differ much.

FTAs usually exclude agriculture

- Thailand had to withdraw ***rice*** from the FTA negotiation with Japan.
- Rice is also excluded from Korea’s FTAs with other countries
- Most of bilateral trade agreements exempt agriculture.
- *What commodity was exempted from the FTA between USA and Australia?*

FTAs: Cumulative Agreements in Asian Countries: 1973-2016

Source: Asia Regional Integration Center



Economic Partnership Agreement (EPA): *Beyond the FTA*

- **EPA** between Thailand and Japan includes cooperation in education, environment, energy, sciences and technology, tourism, and human resource development.
- EPA goes ***beyond*** what WTO has stipulated since it allows ***partners*** to take advantage of **each other's strength** and recognize the **value of cooperation**.

Suspended FTA: Thailand and USA

- In October 2003, G.W. Bush announced the US's intention to negotiate an FTA with Thailand to deepen trade and investment and encourage economic and regulatory reform, improving IP protection, transparency, and the rule of law.
- But the negotiations **were suspended in 2006** following the dissolution of Thailand's parliament and subsequent military coup.
- In 2015, the U.S. was Thailand's third-largest trading partner, after China and Japan. The two-way trade between Thailand and the US amounted to $38 billion.

The use of FTA privileges and GSP

- The use of free trade agreement (FTA) privileges and the Generalized System of Preferences (GSP) by Thai exporters fell by 15.1% year-on-year in the first five months of 2020, moving in line with the country's lower overall exports during the coronavirus pandemic.
- **The top five export markets with the most use of FTA** privileges were *ASEAN, China, Japan, Australia and India.*
- The Thai-ASEAN FTA continued to produce the greatest value, with $8.05 billion in the period, while the Thai-China FTA totaled $7.8 billion.

12 FTAs are in place in 2020

- Thai-Japan FTA privileges were worth $2.88 billion.
- The Thai-Australia and Thai-India FTAs saw value of $2.4 billion and $1.4 billion, respectively.
- Thailand has 12 FTAs in place, including the Thailand-New Zealand FTA, which requires self-declaration for **proof of origin**.

The GSP Removals by the U.S.

- The US will suspend 1.3 billion dollars worth of duty-free trade for certain items from Thailand, claiming that Thailand has not taken steps to protect labor rights.
- Because Thailand had not taken steps to recognize worker rights.
- The US Trade Representative's office said the move amounted to a suspension of 1.3 billion dollars in trade preferences under the Generalized System of Preferences (GSP) program.
- At present, the GSP program covers around 4.5 billion dollars worth of Thai exports.
- The suspension, which will take effect in six months, affects about a third of Thai products included in the program, including all of Thailand's seafood exports to the US.

Thailand is not the only country that was singled out by the US

- Thailand is the second biggest beneficiary of the US's GSP, after India, which was the largest GSP beneficiary with 5.7 billion dollars in imports to the US in 2017.
- Washington decided to terminate India's designation as a beneficiary developing nation in May 2019.
- A wide range of Thai export items currently receive GSP benefits. The biggest beneficiaries are ***electrical appliances and electronics like air conditioning and electronic components, and washing machines, followed by food and agriculture products and machinery***.
- Thailand is the United States' 20th largest goods trading partner, and two-way trade totaled USD44.5 billion in 2018. The U.S. goods trade deficit with Thailand was USD19.3 billion in 2018.

Expansion of the use of GSP privileges

- According to the Foreign Trade Department, the US retained the highest rate of GSP use, making up $1.9 billion, down 4.2%, followed by Switzerland ($106.36 million, down 2.7%), Russia ($66.45 million, up 12.7%) and Norway ($10.07 million, up 24%).
- *Japan removed preferential tariffs for Thai products in 2019*
- The GSP is used for trade with the US, Switzerland, Russia and Norway.

Expansion of the use of GSP privileges

- Products that saw the highest application of GSP privileges were rubber gloves, air-conditioner parts, processed food, fruit and vegetable juices, and electric transformers.
- Thai exporters had been hit hard by Covid-19, some exports, particularly in drinks and processed foods, were found to remain strong.
- A robust expansion of the use of GSP privileges, particularly **processed foods** (the US and Asean), canned pineapple (Russia and the Commonwealth of Independent States), fresh and frozen fillets (Russia and the Commonwealth of Independent States), processed pineapple (Chile), tuna (Peru), and processed tuna and processed tofu (Australia),"

5. Mega Trade Blocs

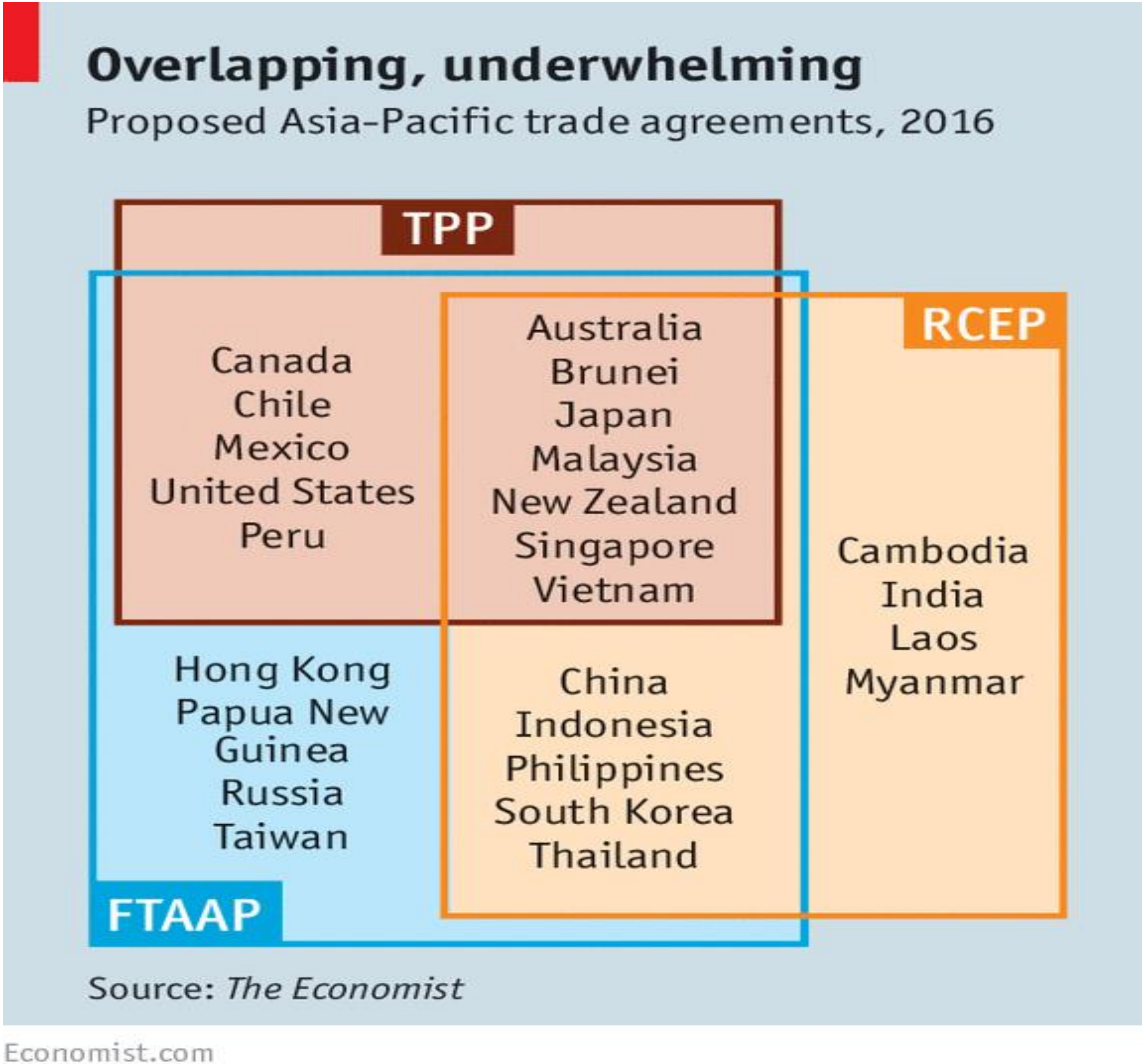
- The stalemate in the WTO Doha Round negotiations gave rise to a surge in FTA activities.
- The latest emergent negotiation of mega-trade blocs in 2014: Asian RCEP, the trans-pacific TPP, and the Transatlantic Trade and Investment Partnership (TTIP).

RCEP: Regional **Comprehensive** Economic Partnership

- Launched in November 2012, RCEP (16 countries) with 3.4 billion population (48.6% of world), 21.1 trillion dollar GDP (29.2% of world) and 10.3 trillion dollar goods trade (27.9% of world) in 2012.
- RCEP reinforces ASEAN centrality in regional economic integration, using framework set by **ASEAN+6** proposal (Japan, Korea, **China**, India, Australia, and New Zealand)
- ***RCEP targets removal of 95% of tariff on goods*** and achieve sizable liberalization in services and investment
- Special and differential treatment for CLMV.

The long delayed RCEP

- Japan urges Thailand's to conclude the RCEP, and supports Thailand to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade pact.
- Thailand hopes attempts by the 10 ASEAN members and six free trade partners to finalize the China-backed RCEP will be concluded during the ASEAN and other summits from Nov 2-4 in Bangkok.
- There are still remaining problems on *market access and protected goods.*


Overlapping, underwhelming
Proposed Asia-Pacific trade agreements, 2016
TPP
Canada
Chile
Mexico
United States
Peru
Australia
Brunei
Japan
Malaysia
New Zealand
Singapore
Vietnam
RCEP
Cambodia
India
Laos
Myanmar
Hong Kong
Papua New Guinea
Russia
Taiwan
China
Indonesia
Philippines
South Korea
Thailand
FTAAP
Source: The Economist
Economist.com

The Differences

- RCEP and TPP ***overlap*** in many areas: trade in goods, services, market access, rules of origin, trade remedies, sanitary standards, technical barriers to trade, investment and intellectual property (IP).
- Unlike TPP, ***RCEP has no environment and labor standard provisions***, which are pushed by the US but unpopular with other countries, most importantly, China which is a member of RCEP.

Trans Pacific Partnership (TPP) and *Comprehensive and Progressive* TPP (CPTPP)

- CPTPP involves only 11 nations after President Trump says no to the TPP.
- Brunei, **Singapore**, Chile, New Zealand, Australia, Peru, **Vietnam, Malaysia**, Canada, Mexico, and Japan.
- Participating of mega blocs would have liberalized and rationalized their trade rules than under WTO.

Comprehensive and Progressive *TPP*

- Under the current trade turmoil, the formation of mega-FTAs has actually been accelerated.
- The **CPTPP** was signed by 11 countries in March 2018 and was in effect among six countries, i.e., **Mexico, Japan, Singapore, New Zealand, Canada, and Australia**, on December 30, 2018. ***Vietnam followed*** on January 14, 2019.
- Thailand, *Chinese Taipei*, and other East Asian countries seriously start considering the accession to the CPTPP.
- Thailand did not file the application during the recent CPTPP Commission meeting on Aug 5, 2020 in Mexico.

Thailand is not ready for the CPTPP

Consumer benefits vs. incentives to inventors

- Thailand will be shying away from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- The country lacks necessary preparedness and consensus for the high-end free-trade arrangement.
- It still needs to modernize the tax system and enact new legislature to catch up with global trading rules.
- In addition, without any reconciliation of *existing polarized views between the governmental agencies, private sector and civil society organizations,* any attempt to enter the CPTPP's negotiation process now would be futile.
- It could also drive a further wedge into society, especially at this juncture.

Intellectual Property Right

- Thai authorities, the private sector and farmers want to make sure that we can protect our plant species after signing the CPTPP.
- intellectual property provisions under the Protection of New Varieties of Plants Convention, better known as UPOV1992., which forbid farmers from saving and reusing seeds which contain patented plant materials.

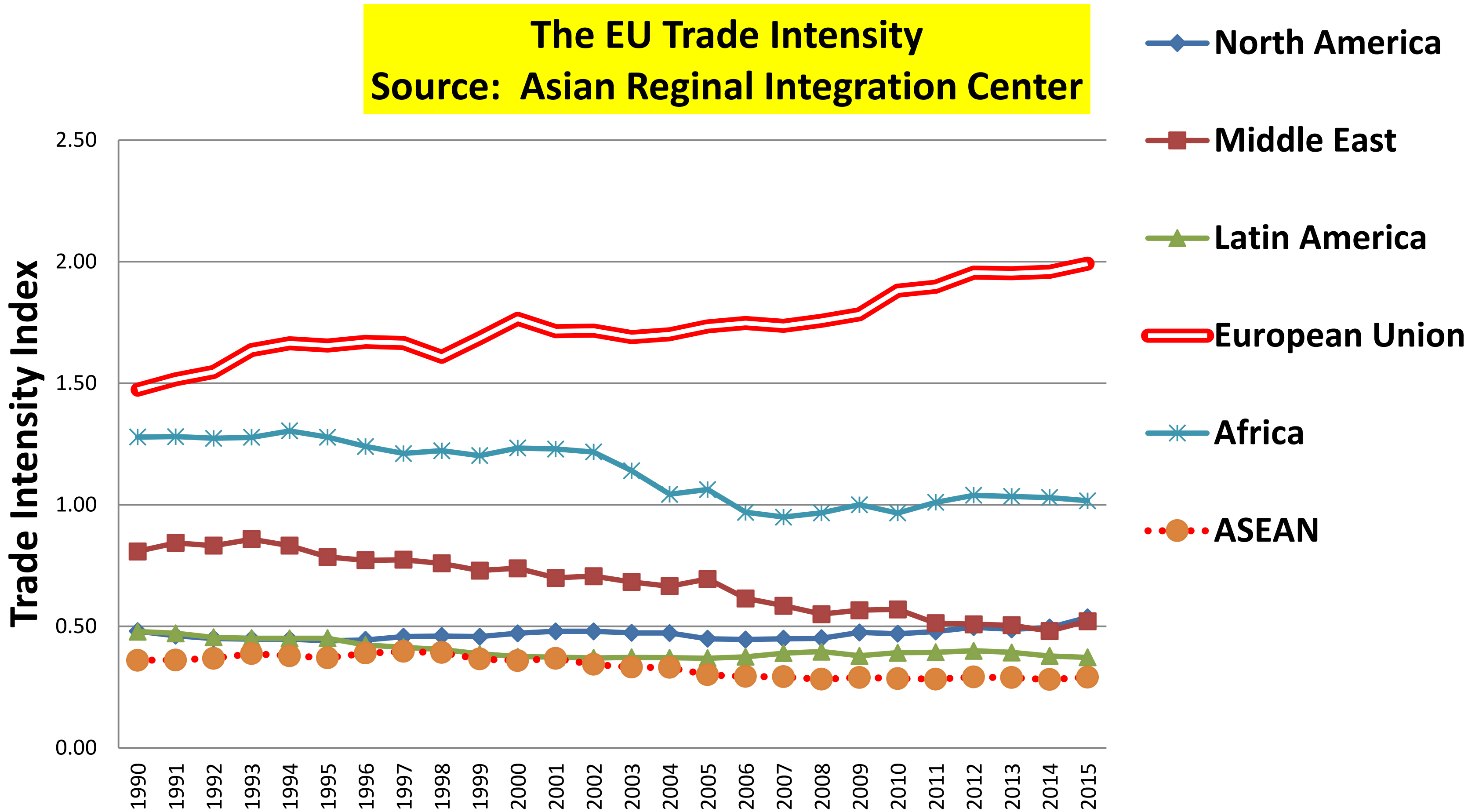
Will we pay higher prices for medicine after signing CPTPP?

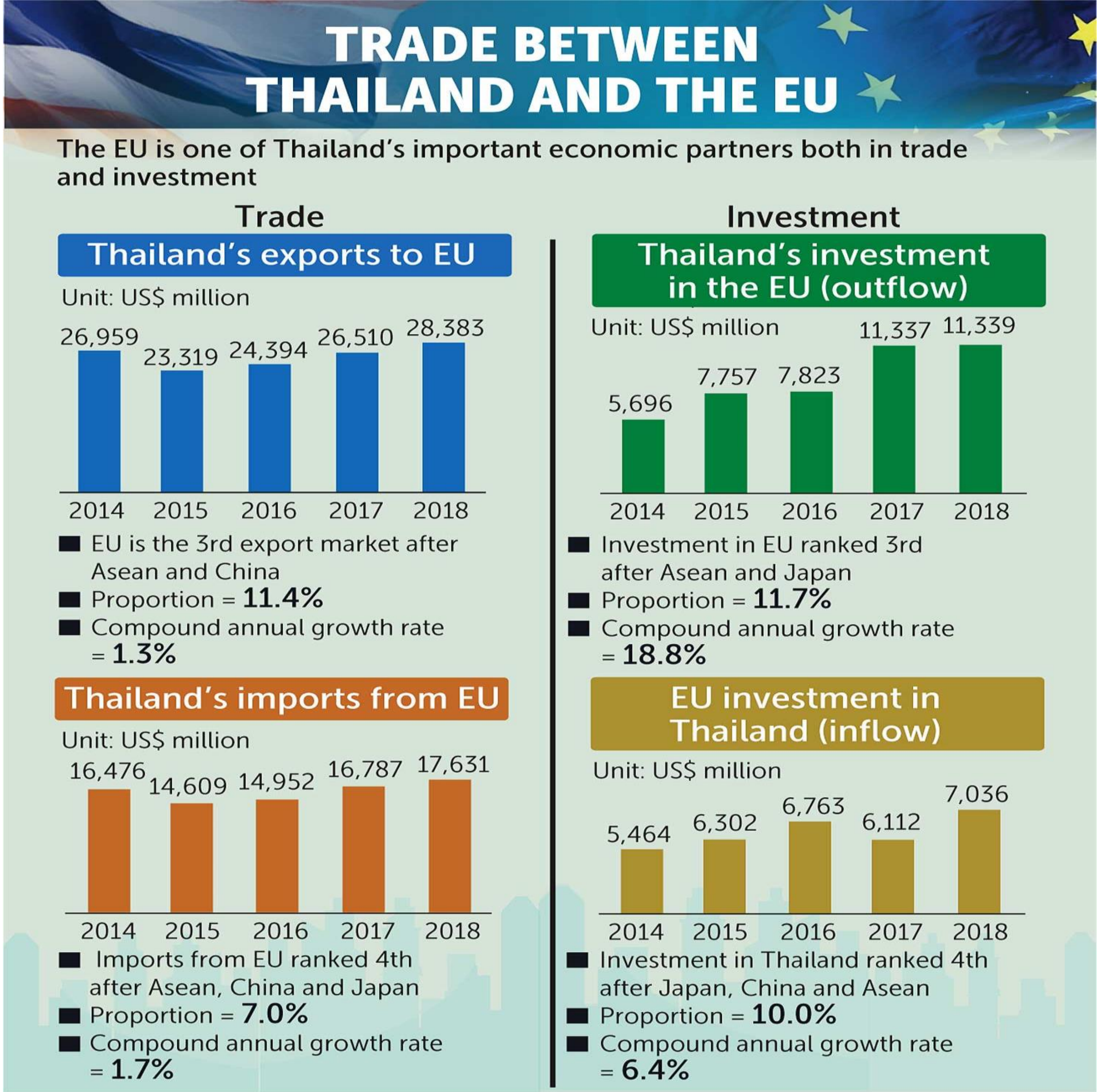
- As a member of CPTPP, Thai consumers would have to pay more for medicines, further increasing dependency on imported drugs, jeopardizing state-owned drug manufacturers.
- The Government Pharmaceutical Organization has produced many generic drugs, providing affordable medicines to patients after compulsory licensing was initiated in 2017.
- It enables the country to use cheaper, generic drugs instead of imported brands.

Time to step out of the comfort zone

- CPTPP may not benefit the country much, because the country already has established FTAs with all the members of CPTPP except ***Canada and Mexico***.
- Under the CPTPP, Thailand has to open its market for sensitive products, which is reserved under other FTAs to Canada and Mexico.
- Thailand continues to encounter a strong fear of losing its domestic competitive edges to foreign countries.
- All stakeholders, including civil society groups, are still far apart on key issues.
- ***FTA negotiations are not a zero-sum game, they are give-and-take negotiations, depending on certain sectors the country would like to promote or trade off***.
- **Thailand should learn from Vietnam and Malaysia.**
- Both countries were decisive and took risks to integrate with the global economy and attract foreign investment.

6. Trade between the EU and ASEAN is relatively low





Source: Trade Map by ITC, Bank of Thailand (2018) BKPgraphics

The EU protested Thailand’s suspension of democracy

- FTA negotiations between Thailand and the EU were **put on hold after the 2014 coup** and for the subsequent military rule.
- Thailand needs to speed up FTA talks with the EU as the bloc has already signed FTAs with **Singapore and Vietnam**.
- The more Thailand delays negotiations, the more export opportunities will be lost as the export product structures of Singapore and Vietnam are almost identical to Thailand's.

The EU-Thailand FTA: Benefits and Challenges

- Thai products expected to reap benefits from a pact include automobiles and parts, garments, electronics, chemicals, rubber, plastic, food and processed food products, machinery and parts, construction and leather products.
- Thai products likely to feel the pinch from the FTA would be dairy product, sugar, tobacco and alcoholic drinks.

Concluding remarks

- Integrating the Thai economy with regional trade blocs can serve as an instrument to speed up ***domestic reform***
- ***Temporary subsidies*** must be given to adversely ***affected*** industries to ease adjustment costs during the transition period to free trade agreements.
- Do not expect the GSP to remain forever; it is high time the country improved the efficiency and reduced the cost of production to compensate the GSP removal from both the EU and the U.S.